

News Release...

U.S. Senator Ron Wyden

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PREPARED REMARKS FOR SENATOR RON WYDEN INTERNET TAX HEARING

Three years ago, when Congressmen Chris Cox and I introduced the Internet Tax Freedom Act (ITFA), we said you can't squeeze the new economy into a set of rules written for smokestack industry.

Three years ago, opponents of our bill predicted retailers were going to vanish from Main Street. The National Governors Association predicted our bill would have severe consequences on state and local economies (Oct. 97), the National League of Cities, the National Association of Counties and the U.S. Conference of Mayors warned the moratorium on Internet taxes would cause a virtual collapse in the state and local revenue base. The National League of Cities said one of the gravest concerns of this new electronic era will be the almost complete erosion or potential implosion of the sales tax.

The Denver Post editorialized on November 16, 1997 that the Internet Tax Freedom Act would make states and cities wave goodbye to their tax revenues, and that services citizens expect of local government will decline drastically. A Democracy and federalism as America knows them could be zapped from the screen of history.

A front page story in this past Monday's *New York Times* paints a very different picture: A resurgent Michigan Leads Newly Flush States. The article begins: Lawmakers here and in many other states, now in the throes of writing their budgets for the 2001 fiscal year, are witnessing the **biggest of six consecutive years of rising revenues**, inspiring inventive new ways to spend money and wave upon wave of tax reductions. It goes on to point out that New York, California, Texas, Maryland, Minnesota, Indiana, Washington, Pennsylvania and Michigan have been amassing annual surpluses exceeding \$1 billion.

In the 18 months since enactment of the ITFA:

- + States and localities have continued to collect sales and use taxes, and state budgets ended fiscal 1999 with a \$35 Billion surplus;
- + Traditional bricks and mortar retailers had one of their best holiday seasons, recording a nearly 8% jump in sales over the previous year;

- + In states where Internet usage is highest, revenues are up the most;
- + California's sales tax collections were up 20% over 1998; and
- + ABC News reported that 74% of Main Street merchants now also do business online. Bricks and mortar have become clicks and mortar.

AThe Internet Nondiscrimination Act that Rep. Cox and I introduced earlier this year is about one principle: you cannot stick it to the new economy. The Internet Non-Discrimination Act (INDA) is about fairness and balance. The bill would continue current law that bans discriminatory taxes on e-commerce. No business gets any more favorable tax treatment by selling online, and no business gets any less favorable treatment by selling online.

AI believe that a permanent ban on discriminatory taxes on the Internet is the way to go. I am willing to let the states and localities try their hand at developing a simplified sales and use tax system that doesn't stick it to the Internet. But the Supreme Court set the bar high in the Quill decision. The states have a lot of work to do to make sure any new sales tax collection obligation they want to impose on remote vendors can satisfy the undue burden test. If the state simplification plan passes the undue burden test, it will not have any problem passing the nondiscrimination test.®

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